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SUMMARIZING THE COMMITTEE'S FIELD HEARINGS HELD IN 1985 ON THE IMPACT OF TAX REFORM AND SIMPLIFICATION PROPOSALS ON SMALL BUSINESS

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IMPACT OF TAX REFORM ON SMALL BUSINESS

INTRODUCTION

The Senate Committee on Small Business has in recent years advocated through hearings and legislation the inclusion of provisions favorable to small businesses within the Federal tax code in order to level the playing field on which they compete with large firms.

Since President Reagan first raised the concept of comprehensive tax reform in his 1984 State of the Union address, specific reform proposals have begun to take shape in Congress. Senator Lowell Weicker, Jr., the Committee's Chairman, and Senator Dale Bumpers, Ranking Minority Member, have expressed concern that the core of carefully crafted small business tax incentives in the current code—including those which help small firms to attract and retain capital, promote capital investment, increase productivity, and enhance private sector job creation—might unravel should the enactment of sweeping tax reforms occur. Further, the Senators felt strongly that the contributions of America's 14.2 million small businesses to the health of our national economy warrants the consideration of this sector's needs throughout all phases of tax reform discussion and debate by federal tax policy-makers.

In a memorandum circulated to all Committee Members on November 29, 1984, Senators Weicker and Bumpers stated,

> One of the major issues that will dominate the new Congress is "tax simplification" . . . We believe it is imperative that the Senate Small Business Committee be prominently involved in any tax reform debate, as an advocate for our small business constituency. In our view, for any tax reform legislation to be successful, it must have the support of small business.

This memorandum further described some of the Senators' prime concerns and the need for hearings on this issue. The Senators noted,

> A key ingredient to the small business support is their involvement in the decision-making process. For example, will the various tax reform proposals have any effect on small business' ability to raise or retain capital? What impact would an elimination of the investment tax credit (ITC), have on small businesses? What tax "reform" options could be acceptable to the small business community? An extensive hearing record will need to be developed within the Committee if we are to have the substantive foundation from which to participate in this debate.

With these thoughts in mind, the Committee held a series of field hearings in 1985 in order to examine the impact of tax reform on small business. An overview of the current situation and a summary of those hearings follows.

IMPORTANCE OF SMALL BUSINESS TO THE ECONOMY

The small business record of accomplishments has been clearly documented. In 1984, the small business sector once again led the country in job creation, and provided the key to overall economic

growth. The recent economic recovery was spurred, in large measure, by the major contributions of America's smallest firms—those employing fewer than 20 persons—which generated all of the 1 million net, new jobs during the last recession. Industries dominated by small business consistently added jobs at a rate almost twice that of industries dominated by large firms. Between 1980 and 1982, for example, the small business sector created 2.6 million jobs, while large companies lost 1.6 million jobs, and Fortune 500 firms depleted their jobs supply by a half million positions.

And yet, despite the important contributions of small businesses to the national economy, they have operated for decades under a highly discriminatory tax policy which fails to address the special disadvantages that small firms face in attracting and retaining capital. Current tax code provisions, including the deductibility of depreciation, which is too complex and favors larger capital intensive enterprises; advantageous LIFO accounting rules which require costly tax accounting counsel; investment tax credit incentives which apply mainly to new capital; and corporate tax rates which are not progressive enough to permit adequate capital retention do not adequately address the special needs of small businesses or provide the necessary tax incentives.

A note here with regard to the organization of small firms and their method of filing tax returns should put the impact of tax reform on small business in better perspective.

Most small businesses are legally formed in one of the following ways: proprietorships and partnerships (both taxed as individuals); sub-chapter S Corporations (taxed as individuals); or subchapter C corporations (taxes as corporations). According to statistics compiled by the Small Business Administration (SBA), small business corporate taxpayers (sub-chapter C) represent approximately 20 percent of all small business entities. The remaining 80 percent file individual tax returns. The 20 percent of all small business entities that are organized as corporations, nonetheless, account for over 65 percent of all taxable income earned by small business.

LEGISLATIVE HISTORY OF SMALL BUSINESS TAX INCENTIVES

The Committee began its efforts to aid small business through specific tax code revisions in February 1981, at the start of the 97th Congress. Senators Weicker and Nunn, Chairman and then-Ranking Member, respectively, introduced a comprehensive tax package, known as the Omnibus Small Business Capital Formation Tax Act of 1981 (S. 360), aimed at making it easier for small firms to retain and attract capital through changes in the tax law. This measure, which was co-sponsored by several Committee Members and a number of other Senators, specifically addressed the difficulties faced by small businesses in attracting long-term capital for new investment in plant and equipment, as well as retaining capital generated internally.

S. 360 took a two-pronged approach to resolving these problems by proposing: (1) significant new tax credits, rollovers, and other incentives to encourage investors to make long-term equity capital available to small businesses; and (2) important new tax provisions to permit greater earnings retention, including reduced corporate

tax rates, accelerated and simplified depreciation deductions, reductions in inventory accounting burdens, and reforms in estate and gift tax laws which would permit small firms to retain a greater amount of their earnings.

This 1981 omnibus tax act became the starting point for Senate consideration of small business tax legislation during the first session of the 97th Congress, and other small business tax measures were subsequently introduced in the Senate and the House. The Economic Recovery Tax Act (ERTA), contained a number of provisions adapted directly from S. 360, including accelerated depreciation, and estate and gift tax reforms. Senators Weicker and Nunn subsequently offered an amendment to this bill to reduce the corporate tax rates paid by small firms, which passed by a vote of 92–0.

While ERTA and tax measures since enacted have placed provisions to encourage greater capital investment in small business on the books, Congress has failed to fully address the needs of small firms in areas such as the critical shortage of long-term financing. In light of the persistence of unacceptably high real interest rates and the special financing needs of small businesses, Senators Weicker, Bumpers and other Committee Members believe that measures designed to increase the flow of capital to these firms are necessary. In addition, these Senators feel strongly that any current or future tax reform proposals considered by Congress must strive to preserve the incentives for small business entrepreneurship contained in the current tax code.

COMMITTEE'S FOCUS ON TAX REFORM

The Senate Small Business Committee responded to the national focus on tax reform by conducting a series of 13 field hearings in seven states beginning in January 1985 to examine the impact of tax reform on small business. Witnesses represented well the diverse industries comprising the small business sector, and included retailers, manufacturers, realtors, computer software developers, forest products producers, farmers, ranchers, local officials, accountants, lawyers, bankers, restaurateurs, travel and tourism representatives, as well as associations representing these diverse small business groups.

An outline of the hearings conducted by the Committee in 1985, with the respective locations and dates, as well as the presiding Senator in parenthesis, follows:

Tennessee (Sen. James Sasser): Nashville, January 9; Memphis, January 9.
South Dakota (Sen. Larry Pressler): Sioux Falls, February 13; Huron, February 13; Rapid City, February 14.
Illinois (Sen. Alan Dixon): Chicago, March 4.
Montana (Sen. Max Baucus): Missoula, May 28; Billings, May 29.
Massachusetts (Sen. John Kerry): Boston, July 3.
Washington (Sen. Slade Gorton): Vancouver, August 16; Seattle, August 19.
Arkansas (Sen. Dale Bumpers): Fort Smith, August 27; West Memphis, August 28.

These hearings provided a broad range of small business owners and operators with an official forum in which to state opinions on how they would fare under the proposed tax reform plans. The differing, and sometimes conflicting, opinions expressed by the witnesses reflect the diversity of the small business sector, and pose the usual problems attached to summarizing the views of a con-

stituency composed of businesses varying dramatically in size and location, and which span virtually every industry in America.

Witnesses unanimously embraced the concept of simplicity and stability, with many blaming the complexity of the current code on frequent Congressional tinkering with our tax laws. Many of those testifying favored maintaining current tax incentives, including a graduated tax rate structure for corporations, an accelerated depreciation system, the investment tax credit, and a continuation of the capital gains preference.

A detailed explanation of the key provisions in the Administration's tax reform package affecting small business, which were of prime concern to those testifying at the Committee hearings, along with excerpts from actual testimony are provided in the pages that follow. In addition, the views of some small business advocates who did not participate in the panel's hearings, such as the Committee's National Advisory Council, are contained in the report.

This document is intended to provide our nation's tax policymakers with insight into the thoughts of the small business community on tax reform, so that the opinions and special needs of this important economic sector may be incorporated into the tax reform debate.

TAX POLICY CONCERNS

Simplicity and stability

Many small business witnesses expressed support for a major overhaul of the tax code, provided that this effort would produce a truly simplified code that would be resistant to frequent changes in the future. Many of those who testified, however, were skeptical that any of the current proposals would achieve the goal of true simplification. If this goal is not met, the witnesses' overriding sentiment was that the code is better off without changes and should be left alone.

Gaines Norton of Frost & Company, a Little Rock, Arkansas firm of certified public accountants, expressed dissatisfaction with the Administration's tax reform package:

> The President's tax proposals to Congress for fairness and simplicity are the keynotes used to attract the attention and support of the public, but the actual proposals are in no way simple nor are they fair.
>
> I've made my living in the income tax section of my profession as a CPA for the last 18 years, and I've lost count of the number of tax reform measures that we've had. Every Congress has wanted to reform the Internal Revenue Code and all it manages to do in the process is make it more complex.
>
> No Congress wishes really to spend sufficient time studying the problem that is existing in the tax law to do it justice.

This sentiment was buttressed by Robert A. Chance from Longview, Washington:

> Yes, I'd rather keep it the way it is because I really think—you know, they advertise that his proposals make the tax law more simple, and I don't think it does. You take a look at all these proposals, at least the ones I've outlined in my testimony, and almost all of them make it far more complicated—maybe not for the individual; it's centered on making it more simple for the individuals, maybe a tax return filing system that doesn't require people to fill out forms and mail them in. Things like that would be far more simple for the individual, but you take a look at almost all these proposals for corporations—far more complex, highly complex computations.

The code has undergone a series of frequent and wide ranging changes in recent years, requiring substantial adjustment in the financial management and operation of most businesses. The following list of significant tax reform measures enacted during the past ten years demonstrates the frequency of amendments over that period:

Revenue Adjustment Act of 1975
Tax Reform Act of 1976
Tax Reduction and Simplification Act of 1977
Revenue Act of 1978
Economic Recovery Tax Act of 1981
Tax Equity and Fiscal Responsibility Act of 1982
Tax Reform Act of 1984

Typically, small businesses must rely on outside counsel to keep abreast of tax changes and to develop prudent financial strategies within the framework of changes in the code. Valuable resources in terms of time and money must be expended in response to the continually changing tax environment at a time when most businesses need to direct their resources internally in order to ensure their operating success.

Stability was judged as imperative in order to allow firms to make long-term plans without the threat of immediate changes or continual adjustments. Such stability would allow long-term planning without jeopardizing market opportunities for firms that are not large enough to be able to absorb quick changes, adjustments, reversals and corrections, due to yet another tax law change.

Timothy J. Sather, an accountant from Billings, Montana, expressed the sentiment that there is a lack of public confidence in the tax system as a result of the constant changes in it:

> We cannot stand any more reduction, reform, equity or simplification. Without regard to the specifics of the law, which have consistently made the code more complex, the lack of confidence in the system has been heightened greatly by the constant tinkering with the law, e.g., long-term capital gains. In the past eight years, the waiting period has been . . . six months, nine months, then to one year, and now reduced back to six months.

Small business is in general agreement that significant tax legislation every 12 to 18 months requires a substantial adaptation to a whole new set of rules and regulations. Small business witnesses also expressed great concern that, given the many alternatives being presented for reform, the end result may in fact be more disadvantageous than the system currently in place.

A quote from Alexander Hamilton's Federalist Papers offered by Wayne Oldham, a restaurateur from Nashville, Tennessee, illustrates the general frustration of today's small business owners with the lack of stability in the tax code:

> "It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood; if they be repealed or revised before they are promulgated, or undergo such incessant changes that no man who knows what the law is today can guess what it will be tomorrow."
>
> And I think that's the situation we're finding ourselves in today with all the tax laws, especially as they affect small business.

A feeling of frustration with the complexity of the code was vividly conveyed by Donald McKnight, a farmer from Parkin, Arkan-

sas, who also noted the irony of a person with no taxable income being asked to comment on the need for simplicity in the tax code:

It is very admirable for anyone to even propose a simplified income tax system; for after all, it is rather absurd for a small business with only three employees to need the services of a tax accountant to keep abreast of the tax regulations to operate within them.

Bill Yager, a farmer from Billings, Montana concurred:

My wife and I spent 40 to 50 hours last year trying to fill out 12 pages of Federal tax forms. And we both have college degrees, but we had to get help to complete those forms. Remember, we are talking about a very small, simple business that has no tax liability.

The same basic sentiment was offered by Jim Koessler, who had been a principal in several small business entities and currently is president of Rocky Mountain Capital Limited, a closely held venture capital company, as well as two other venture capital vehicles, one of which is the only SBA-licensed SBIC (Small Business Investment Company) in the state of Montana:

In my experience, new or small business entities are generally founded by people who have expertise in a particular product of service, but more often than not have limited or non-existent backgrounds in finance or accounting.

They immediately find that they are devoting a meaningful proportion of their time to complying with tax reporting requirements to the detriment of the underlying business . . .

In summary then, our present tax system motivates American business to dedicate substantial amounts of time and money to non-productive activities.

The Committee heard the call for stability in the code from others in the small business community, as well as from witnesses before the panel.

The Committee's National Advisory Council, established in 1981 to obtain regular grassroots insight into the problems and concerns of the Nation's small businesses, is composed of 25 small business persons from around the country who come to Washington each year, at their own expense, to meet with Committee members and other officials to discuss the state of small business from their perspective. As the only such officially recognized advisory body to the Senate, the Council's perspective, which reflects active working members of the small business community, is highly valued. At their fifth annual meeting in October of 1985, the National Advisory Council endorsed the following resolution concerning tax reform:

Therefore, be it Resolved that, the National Advisory Council to the United States Senate committee on Small Business does not believe that fundamental change in the tax code is warranted, with the exception of a strong corporate minimum tax. Should Congress decide to enact comprehensive tax reform, any such revision of the tax code must recognize the needs of small business.

This resolution states the Council's preference for stability in the tax code based on its belief that true simplification or reform would not be enacted. The unanimous feeling of the National Advisory Council, however, was that if tax reform is inevitable, then the needs of small business must be addressed.

The preface to the Council's resolution cited the strong small business support for retention of certain provisons of the tax code, including preferential treatment of capital gains, graduated corporate tax rates, the investment tax credit, tax-exempt financing for small business, and some form of accelerated depreciation, along

with two other provisions. A discussion of each of these major small business concerns follows.

KEY SMALL BUSINESS TAX CONCERNS

Capital gains

Ordinarily, the gain from the sale or exchange of property is included in its entirety in the income of the recipient and therefore taxed at ordinary income tax rates. Only when a transaction is a long-term capital gain, which requires the taxpayer to hold the property for more than six months, is it subject to a lower tax.

Current law provides a capital gains exclusion of 60 percent of any long-term capital gain, thereby taxing this income at a maximum effective tax rate of 20 percent for taxpayers in the highest individual bracket, which is currently 50 percent.

A corporation cannot take advantage of this 60 percent capital gain exclusion. Instead, a corporate taxpayer has two alternatives for determining tax due on its long-term capital gains. First, the corporation simply includes all capital gains in its taxable income and computes the tax due at ordinary corporate rates; or second, in the alternative, the corporation computes the tax due on its actual ordinary income (excluding capital gains) while calculating the tax due on its capital gains at a 28 percent rate, adding these two calculations together. The corporation then uses the method that produces the lesser total tax liability. For any corporation that earns more than $60,000 of ordinary income, the alternative for 28 percent rate for capital gains yields the more advantageous result since some ordinary income would be taxed at a greater than 28 percent marginal rate. Otherwise, simply taxing all corporate income at ordinary rates is the more advantageous method.

The capital gains exclusion for individuals was originally devised in recognition of the fact that gains from property do not necessarily accrue in the year of sales, so they should not be taxed as if they do. The quantity of investment and flow of dollars, particularly into small businesses, will be directly governed by the percentage of gain excluded from tax and the required holding period. Since the exclusion was created, the amount of the exclusion and the required holding period have varied. From 1942, the exclusion was a flat 50 percent for property held six months or longer. In the 1970's, the holding period was extended to twelve months and the exclusion increased to 60 percent, until the Tax Reform Act of 1984 again reduced the required holding period to six months.

In its original proposal of November 1984, the Treasury Department recommended a complete elimination of capital gains treatment on profits from long-term investments. Under that proposal, all earnings from investments which previously received favorable capital gains treatment would have been subject to taxation as ordinary income.

In May the Administration changed its position on this sensitive issue when its tax reform proposal was reintroduced.

The current Administration plan proposes to reduce the allowable exclusion from 60 percent to 50 percent, which with the proposed lower maximum personal tax rate of 35 percent would yield a maximum effective rate of 17.5 percent on all capital gains. The

plan also proposes, after 1991, to allow taxpayers to choose whether to use this 50 percent exclusion, or to have capital gains taxed as ordinary income with the property's basis adjusted for inflation. However, this proposal would limit the type of property eligible for capital gains treatment by excluding "depreciable" property, i.e. such property as equipment and buildings used for business and commerce. Otherwise, capital assets, including personal residences, would continue to be eligible for capital gains treatment.

Proponents of maintaining capital gains argue that there is a qualitative difference between ordinary income and capital gains due to the increased risk associated with long-term capital investment. Maintenance of the exclusion is required, therefore, not only to reward those who take these risks, but also to sustain the pool of venture capital upon which many small businesses rely. Additional arguments are advanced for the retention of favorable treatment of income from long-term investment. One such point of view recommends excluding capital gains from income on the grounds that the profits could not reasonably be considered available for consumption. Another argument for special treatment of capital gains is that genuine income must be recurrent, and capital gains are not. Defenders of preferential treatment of capital gains also point out that capital gains represent "bunched" income. Even if capital gains are realized in a single year, they are accumulated over several years. Therefore, they should be accorded special treatment. Another argument is that any increase in the current value of capital assets due to inflation should not be subject to tax. This theory emphasizes that capital gains must be relieved from the effects of inflation.

Concern about the economic impact of taxing capital gains, in particular the so-called "lock-in" effect, constitutes the primary justification for the capital gains preference. One study found that, of those who reported a sale of capital assets, nearly 75 percent said they had reinvested the profits. R. Barlow, H. Brazer, and J. Morgan, "Economic Behavior of the Affluent" (1966). Thus, the argument continues, capital gains merit special treatment in order to spur capital investment and promote economic growth. Conclusions of a recent Treasury Department study reflect several of these theories and criticisms. The study, which was released September 13, 1985, concluded that cutting the capital gains rate in 1978 and 1981 bolstered government revenue at the same time as it boosted long-term economic growth.

Hearings through May in Tennessee, South Dakota, Illinois, and Montana reflect comments presented to the Committee based on the proposed elimination of preferential treatment of capital gains treatment for any long-term investment. These hearings were held prior to the reinstatement of capital gains in the Administration's proposal on May 28. A tax attorney from Memphis, Robert W. Ratton, Jr., provided support for the retention of long-term capital gains in the tax code. In support of this argument he related to the Committee a history of industrial growth spurred by capital gains:

> In 1921 and since that time we have had, in one form or another, preferential treatment for long-term capital gains. There are several arguments in favor of the provision. One is to avoid taxing income earned over a period of years in a single

year, or the "bunching" effect; a second is to avoid the disincentive for the disposition of property.

The effect of preferential treatment is very industry-specific. The timber industry, the coal industry, the domestic iron ore industry, and the treatment of patents all receive special capital gains treatment. These provisions were drafted into the code during World War II and the post-World War II period to try to place timber and coal on a parity with other agency resources. And I think we must examine the effect of removing the capital gains provisions on these disparate industries before we just say that it is good to tax all income at one rate.

In Chicago, testimony was received from E. Patric Jones, president of the Urban Fund of Illinois, managing officer of Combined Opportunities Inc., and past chairman of the American Association of MESBICs (Minority Enterprise Small Business Investment Companies), who spoke on behalf of the venture capital industry. He noted how important the capital gains differential has been in encouraging investment in capital in both new and existing businesses:

When the capital gains tax differential was eliminated in 1969, venture capital almost dried up Net new private capital invested in venture capital firms declined from $171 million in 1969 to $10 million in 1975 . . .

With the elimination of the capital gains differential, our industry invested $2.9 billion from 1970 through 1977, compared to $11.7 billion during 1978 through 1983, and for 1984 we think that number will exceed $3 billion.

Mr. Jones stressed the critical importance of capital liquidity to any economy as a whole, and urged the complete elimination of any tax on capital gains, noting that Japan and West Germany do not tax long-term capital gains, while the United States has the third highest gains tax rate in the industrialized world.

In Huron, South Dakota, William P. Anderson, president of Anderson Furniture, Inc., asserted that the health of certain segments of the economy would be seriously damaged if capital gains were taxed as ordinary income:

I feel that there would be less enthusiasm to purchase real property from the investment standpoint since part of the advantage of doing so could be wiped out. But more significantly, that risk-taking in the high tech areas, which we need so badly, would be severely curtailed. New companies mean new jobs and correspondingly tax dollars from profits and personal incomes.

Even as the Administration reversed its policy on taxation of capital gains on May 28, 1985, the tenor of testimony continued to strongly support favorable capital gains treatment because of the critical importance of this issue to small business. This revision included a reinstatement of the capital gains exclusion, treating long-term investments even more favorably than under current law. The new plan (as outlined earlier) would provide a maximum effective tax rate of 17.5 percent on the gains resulting from capital investments held over six months.

In Boston on July 3, 1985, John S. Buckley of Ernst and Whinney, presented the Committee with results of a survey his firm performed for the Small Business Association of New England (SBANE). Of the 2200 area respondents, 80 percent opposed elimination of the present treatment of capital gains:

Our respondents seem to view the capital gains treatment as a means of obtaining additional capital investment for their businesses. These businessmen feel that corporate income taxes have already been paid on the earnings of their companies annually. They believe that their equity appreciation should be taxed, but taxed at a rate lower that the ordinary income tax rate.

At the same hearing, Frank Carroll, representing 35,000 members of the Small Business Service Bureau, noted the velocity with which investment dollars move through the economy based on favorable treatment of capital gains:

> The last time the tax rate was reduced under ERTA, millions of dollars were shifted from tax shelters to income-producing enterprises, spurring investment and stimulating the economy . . .

He also conveyed his association's disappointment with the lack of incentives for new business start-ups:

> We are disappointed, however, that there is no specific provision in the President's plan to help start-up and new businesses to encourage innovation or investment.

Other industry-specific concerns about capital gains taxation were heard from witnesses across the country. At the Committee hearings in Washington state, the timber industry's views on capital gains taxation were presented by Nels Hanson, president of the Washington Farm Forestry Association, who argued for the efficiency of the industry:

> The tax reform proposal discourages timber management. If I own a piece of land and I let it go wild and some timber does grow on it and I harvest the timber, then I could treat it as a capital gain. But if I manage the land and run it like a business, then you no longer treat any profit on the sale of timber as capital gains but you must then treat it as ordinary income. So it would discourage small landowners from managing their timberland to grow timber because if they don't, they get the benefit of capital gain on it.

In Fort Smith, Arkansas, Ned Purtle, a livestock breeder, expressed his concern about the elimination of capital gains treatment for Section 1231 assets, which includes breeding livestock:

> A cow which is held as a capital asset to produce calves as ordinary income, is similar to a factory and should be eligible for capital gains treatment. Congress has long recognized a distinction for capital assets, such as breeding livestock, as opposed to business property held for sale.

A similar illustration of the inefficient decisions the tax code can induce taxpayers to make was offered by Bill Yager, a Montana farmer, who also called specific attention to breeding animals that are often sold as soon as they begin yielding litters, long before they reach maximum productivity:

> A lot of hog farmers sell breeding pigs after they've produced just one litter. Now, if you keep a sow for additional litters, she'll be more productive. Generally she'll produce better pigs and more of them.
>
> But federal tax code gives the favorable capital gains treatment to the breeding animals, while the return from market animals is ordinary income. [Thus farmers sell breeding stock earlier than economically practical in order to gain the tax benefits.]
>
> And so what you've got is the result of what's best for the farmer is probably not the most productive way to go.

Clearly, small business feels strongly that tax policy must continue to encourage and reward those who are willing to place their money in certain types of riskier, long-term investments. Preferential treatment of capital gains has historically provided a portion of this reward, thereby encouraging a pool of formation capital for new businesses. Accordingly, small businesses across the country have joined in support of current favorable treatment in the tax code for capital gains.

Depreciation

Current law allows a deduction from income of a reasonable allowance for exhaustion, wear and tear, and obsolescence of property used in a business. This amount is determined by depreciation rules that distribute the cost (basis) of any tangible business property over its estimated useful life (recovery period).

Current depreciation rules, which are known collectively as the Accelerated Cost Recovery System (ACRS), were enacted in 1981 and somewhat modified in 1982 and 1984. ACRS applies to all property placed in service after 1980. The recovery periods for the five classes of property prescribed by this system are 3, 5, 10, 15, and 18 (now 19) years. Under ACRS, generally accepted accounting methods, such as straight-line (proportional) or certain declining balance methods (such as 150 percent declining balance) may be used.

The Administration's proposal would replace ACRS with the Capital Cost Recovery System (CCRS) which would assign depreciable property to six, rather than five, classes. Instead of permitting the use of any of several different accounting methods to determine allowable depreciation deductions, each CCRS class would be assigned a fixed declining-balance depreciation rate: 55%, 44%, 33%, 22%, 17% or 4%.

Also, the remaining undepreciated basis of any asset would be adjusted each year for inflation. Finally, each CCRS class would be assigned a fixed "recovery period" (tax-life), ranging from 5 years to 29 years, over which period the inflation-adjusted basis of any depreciable asset is to be totally recovered. However, no fixed declining-balance rate can completely recover 100% of any asset's cost basis. Therefore, CCRS proposes that straight-line depreciation be used when a given tax year's depreciation allowance under the declining balance method is less than the comparable year's straight-line allowance. The switch to the straight-line method then continues through the remainder of the asset's recovery period.

Analysts have expressed the opinion that CCRS would not allow as generous depreciation deductions as ACRS does, but CCRS certainly is more generous than the original Treasury proposal of November 1984. The type of property for which CCRS is thought to be most restrictive is longer lived property, such as real estate structures, which currently are depreciable over a 19-year recovery period at up to a 175% declining-balance rate. Under CCRS, however, such property would be limited to a 29-year recovery period at a 4% rate. This latter schedule would yield a lesser write-off in any one year. Otherwise, the CCRS proposed schedules are quite comparable with current law, particularly for property with shorter recovery periods.

The Administration's plan to index assets yearly will provide more generous annual depreciation allowances by adjusting the remaining undepreciated basis of property upward every year, thereby reflecting a more accurate replacement cost than simply historical cost. Current law permits depreciation of the entire (nominal) purchase price of an asset. Because depreciation allowances are spread over the life of an asset, the value of the deduction in effect becomes discounted to less than full value.

ACRS "Windfall" recapture: Concern has been expressed by small business interests regarding the Administration's proposal to recapture, over 3 years, 40% of the "windfall" profit that would result due to the generous depreciation rules that have been in effect since the 1981 enactment of ACRS, as these deferred amounts would now be taxed at lower rates. However, no small business would be particularly affected by this "recapture" provision since it would only pertain to businesses that have taken more than $400,000 in "excess" depreciation deductions in the 5 years ACRS has been available. (Note: "Excess depreciation is defined as depreciation deductions that exceed what would otherwise have been allowed with straight-line depreciation.)

Depreciation was among the most frequently addressed concerns by small business persons testifying at the panel hearings. The general consensus of witnesses was that small business has finally gotten accustomed to ACRS, and while still confusing, ACRS is not as complicated as it appears that CCRS would be.

William F. Boyd, III, of Pacific Dye Casting Corp., offered the following comments:

> I feel this new system (CCRS) would complicate the concept of depreciation. A new set of rules now will not provide any more accurate picture of the correct amount of depreciation than the rules of the past.

Nona M. Brazier, president of Northwest Recovery Systems, Inc., Seattle, expressed her belief that neither CCRS (nor ACRS) has "any relationship to any day-to-day reality that the small business person can put his hands on." She favored a return to the old established standards of depreciation that served her so well before the Administration started to encourage investment with accelerated, front-loaded depreciation (cost recovery) systems:

> To deal with (CCRS), the small business person will have to hire someone to stay on top of all of the indices and alterations. Its complexity, while giving leverage to large businesses, works to the detriment of small businesses.

Ms. Brazier also cited the complications with both the indexing feature of CCRS and the conversion to straight-line method for depreciation when the assigned rate for the appropriate asset class yields less than straight-line.

The suggestion that the recovery lives of property simply be extended was offered to the Committee several times over the course of these field hearings. William F. Boyd offered the following:

> I suggest keeping the current ACRS depreciation rules, but possibly adjusting the rates to longer lives, if needed. This would provide the stability needed for compliance with the current rules, and would not further complicate the depreciation system being used.

Professor J. Burke Martin of the University of Montana noted that when Congress had enacted ACRS, it intended to forego tax revenues to encourage increased investment, particularly in machinery and equipment, with less emphasis on structures. This investment was intended to generate new jobs and increase productivity, and eventually increase Federal tax revenues.

Although not all comments heard by the Committee were negative toward CCRS, a large majority were. For example, Samuel R. Ludington, an accountant in Fort Smith, Arkansas, supported the Administration's CCRS proposal:

ACRS depreciation is too fast . . . The President's proposal is nearer economic life and should be better than ACRS. Adjusting the annual depreciation deduction for inflation should help management provide the funds to continually update their plants and equipment . . . I feel that the indexing of deductions, after going through the inflationary spiral of the late 1970's is a necessity in our tax law.

The sentiment generally expressed by the majority of witnesses who testified at these hearings was that, while ACRS is complicated, small businesses are becoming accustomed to it. Witnesses then indicated that if ACRS is not to be retained, at least some form of accelerated depreciation should be continued. Several witnesses suggested that if modifications were going to be made in ACRS, extending the recovery periods for different classes of assets would be the most preferable adjustment to make.

Investment tax credit

The investment tax credit (ITC) was created in 1962 to stimulate the economy by encouraging investment in durable assets. Generally, the ITC provides a credit against tax of 10 percent of any "qualified investment" in tangible depreciable property, excluding most buildings and their structural components. Investment in used property is eligible for the ITC In an amount of up to $125,000 a year.

The amount of the allowable ITC is proportionally less for investment in property with a useful life of less than 7 years. No ITC is allowable if the property has a useful life of less than 3 years.

For some specific kinds of property the amount of allowable ITC is greater. For example, credit ranging from 11 percent to 15 percent of investment in various renewable energy generating property and geothermal equipment, a credit of 15 percent to 25 percent of expenditures for the rehabilitation of older existing buildings, is allowable.

Elimination of the ITC for all types of investment was proposed in the initial Treasury plan of late 1984; this continues to be the Administration's position.

Those in favor of eliminating the ITC argue that it skews investment choices, creating an incentive for inefficient economic decisions. Many tax analysts have long been critical of the credit as producing no real inducement for investments in certain types of property, but only rewarding taxpayers for what they do anyway. It is also maintained by many that elimination of the ITC would help simplify the tax code.

At the same time, businesses that invest heavily in capital assets, and thus utilize the ITC, would be expected to oppose repeal of the ITC. Furthermore, many small businesses that utilize the ITC have long advocated a need to enlarge the amount of the ITC allowable for used property, which is often the only kind of property that many small businesses can afford to purchase.

Retention of the investment tax credit in any tax reform package was one of the major issues focused on by witnesses in each of the thirteen field hearings. The ITC is part of the larger "capital formation" issue for small business. Capital, whether it be through borrowed debt or equity investment, is frequently difficult for small business to obtain. Therefore, small firms must generally rely on earnings to generate the required capital for growth. The ITC is a

mechanism which enhances cash flow by reducing tax liability, and has therefore become a particularly important source of capital to small businesses.

Eight of the ten witnesses at the Vancouver, Washington, hearing on August 16, 1985, focused on the importance of the ITC to small business. Elizabeth Sperline, a computer mainframe manufacturer and an importer/marketer of wines and spirits, presented her views on this issue:

> The elimination of the investment tax credit will be, in my estimation, the worst thing that could happen to small business.
>
> In an era when American businesses are faced with major international competition, I urge the administration and this committee to give strong consideration to retaining investment tax credits. We must continue to modernize American industry so we can compete in the world market. We cannot possibly pass along the costs of new plants and equipment to the consumer if we are to be competitive with foreign companies who are for the most part subsidized by their governments.

Darlene Johnson, president of the Woodland Truck Line of Woodland, Washington, also urged the Committee to support retention of the ITC:

> Small trucking and other small business desperately need the investment tax credit. It is one area in which we save as much as the larger operations with whom we compete . . . I am not willing to trade the investment credit for a reduction in the top corporation tax rate. In case after case the investment credit is the deciding factor that makes a decision to purchase equipment cost effective for a small firm.

One suggestion offered several times to the Committee, as a way to save the ITC, consistent with tax reform, was to limit the dollar amount of investments which qualify for the ITC (as is the case currently with used property). The possibility of limiting the ITC strictly to domestically produced products was also suggested to help ameliorate our international trade deficit.

John Buckley of Ernst and Whinney presented the results of a survey his firm had been commissioned to perform on behalf of the 1800 members of the Small Business Association of New England (SBANE), and 400 executives of high-technology companies in the New England area, to determine their views on the tax reform proposals. Mr. Buckley reported that 73 percent of the survey's respondents opposed elimination of the investment tax credit.

Joe Dooley of Wynne Equipment Company of Wynne, Arkansas, who also represented the Mid-South Farm Equipment Association, commented generally on the difficulty for farmers to compete internationally, and the importance of the ITC to the agricultural economy:

> It is indeed ironic that a tax bill which promises to provide reductions in taxes for almost 80 percent of all individual taxpayers, substantially increases the tax liability of our nation's farmers who can least afford it . . . [by repealing the ITC]. Farm commodities represent a substantial portion of the country's exports, and with an increasing trade deficit, we cannot afford to increase the costs or reduce the efficiency of our nation's farmers.

Martin E. Tobin, chairman of the American National Bank of Chicago, whose customers are primarily small and mid-sized businesses, commented:

> Our industrialized economy, with its capital-intensive industries, will be hit particularly hard by this provision [to repeal the ITC]. It seems incongruous that Treasury wants to remove these incentives as they have been responsible, in part, for our improved economy.

One major complaint regarding the ITC is that business decisions are sometimes skewed to take advantage of the tax savings the ITC offers. Nona Brazier refuted this concern:

> The unanimous opposition to the ITC comes from the idea that business is being rewarded for purchases that it would make anyway presupposes that a business is established and able to update its equipment to become even more competitive within its market place . . . Small business does not have the luxury of making shrewd investment choices or inefficient economic choices based on tax policy; but the ITC has made it more economically feasible to make necessary business moves that would otherwise have had to go unmade.

Samuel R. Ludington, a C.P.A., reviewed the history of the ITC, noting that it was introduced in the early 1960s, twice since repealed ("suspended"), only to need to be reinstated (in 1967 and in 1971) to revive a stagnant economy, as well as two later increases in the ITC (in 1975 and 1981) for additional economic stimulation in particularly slow periods. He opined that each of these adjustments to the ITC were Congressional attempts to stimulate the economy. He urged that serious consideration be given to the history of these changes, and their positive effects on the economy, before abandoning the investment tax credit.

There was some acknowledgement of the necessity to reduce, if not eliminate, the ITC in order to fund the lowering of tax rates in the Administration's proposal. A dollar amount limitation (as is the rule for used property) and limiting the ITC to domestically produced tangibles were frequently recommended modifications of the current ITC.

On the whole, small business witnesses strongly favored retention of the investment tax credit, and emphasized its demonstrated effectiveness in stimulating productivity and business expansion.

Corporate tax rates

Under current law, a graduated schedule of tax rates applies to corporate taxable income. The highest of the five corporate tax rates is a marginal rate of 46 percent, which applies to taxable income above $100,000. To illustrate the application of marginal rates, a corporation paying tax on a net income of over $50,000 but less than $75,000 currently pays a 30% tax on that portion above $50,000; however, the portion of earnings up to $25,000 is taxed at 15%; likewise, the portion of earnings over $25,000 but less than $50,000 is taxed at 18%. Therefore, a company's effective rate of taxation is less than its marginal rate, except as explained later. Listed below are the five corporate tax brackets:

Marginal tax rate (percent)	Taxable corporate income
15	0 to $25,000.
18	$25,000 to $50,000.
30	$50,000 to $75,000.
40	$75,000 to $100,000.
46	Above $100,000.

Originally, the proposal presented by the Treasury Department in November 1984 applied a flat 33% tax rate to all corporate earnings. Subsequently, the Administration responded to strong objections from small business and from Congress, and restored some of

the graduation that was not in the original proposal. The Administration's proposal currently offers four tax brackets for income:

Marginal tax rate (percent)	Taxable corporate income
15	0 to $25,000.
18	$25,000 to $50,000.
25	$50,000 to $75,000.
33	Above $75,000.

Above $240,000 the Administration's plan imposes a 5% surtax that is designed to recapture the benefits of the graduated rates applied to income below $75,000. This provision ensures that corporations with income above $360,000 pay an effective rate of 33 percent on all their taxable income. This concept was first introduced in the 1984 tax act, which currently calls for the recapture of taxable income above $1 million, with a flat 46% rate to apply after $1.4 million.

The reduction of the top marginal rates on corporate income is presented by the Administration as an attempt to offset the elimination of the many business tax credits and deductions that simplification requires. However, for those small businesses who pay at corporate tax rates and who have low levels of taxable income, the reduction of the top two rates may not offset the elimination of deductions and credits that the Administration's plan calls for. Base broadening, that is, the elimination of deductions, credits, and other preferences expands the pool of income subject to tax, thereby permitting the lowering of rates. To measure the benefit of reduced rates, it is critical to recognize that these reduced rates are now applied to an expanded pool of income.

In order to better assess the impact of tax reform on America's 14.2 million small businesses, it would be useful to recall the business form in which the typical small business is organized and how it files its tax returns. As mentioned before, small business corporate taxpayers currently represent approximately 20 percent of all small business entities; the remaining 80 percent of all small business taxpayers file individual returns as proprietorships, partnerships, or sub-chapter S corporations. Although small corporations comprise only one-fifth of all tax reporting small firms, these small business corporate taxpayers earn 65 percent of all small business net income. This business bias could explain why little concern was heard regarding tax rates for non-corporate businesses.

Bill Nourse, owner of Brookmead Hardware, Nashville, Tennessee, and president of the American Independent Business Network commented that "one of the items that concern me greatly is the concept of a flat rate." He continued:

> In principle it sounds very attractive; but in reality, for those of us that are small business that are incorporated, you're really talking about a dramatic rate increase. For most small business companies my size, our profits are well under $100,000 a year.

The opinion was expressed by a number of small business persons that the Treasury proposal would actually be a tax increase for small businesses with earnings up to approximately the

$160,000 taxable income level, particularly when one considers the loss of many preferences at the same time.

Gerald M. Kolb, treasurer of United American Food Processors, a meat processing firm employing approximately 100 people in the Chicago area, registered his objection to a flat corporate tax:

> Many small businesses are lucky to have $100,000 of taxable income and will now find that they are paying an increased tax cost at 33 percent. Small businesses above $100,000 are obviously going to have an additional tax burden of $7,250. Larger corporations can bear the brunt of this increased cost much easier than small businesses.

In addition, several small business groups, including the National Association of Wholesaler-Distributors and the National Retail Merchants Association, supported the retention of graduated corporate income tax rates. Testimony submitted by the National Retail Merchants Association noted that most of its membership, which averages a net annual income of less than $100,000, would be subject to a substantial increase in their tax liability with a repeal of current graduated rates to a flat 33 percent rate applied to all taxable income.

The National Association of Wholesaler-Distributors submitted the results of a study which demonstrated that a wholesale distribution or retail firm must have over $5,000,000 in sales ($5,161,000 by actual count) to be taxed at an effective rate of 33 percent under current law. This study reveals that:

> 94 percent (approximately 769,000 out of 816,000) reporting wholesale distribution and retail corporations fall below the $5,000,000 sales and, consequently, the 33 percent effective tax rate benchmark.

In response to these many outcrys, and evidence of the adverse impact of the elimination of graduated rates, a concurrent resolution supporting the retention of the graduated corporate income tax rates was introduced in both chambers of the Congress on April 18, 1985 (S. Con. Res. 41). This resolution expressed the sense of the Congress on the importance of graduated rates to corporations. Senators Weicker and Bumpers were original co-sponsors, along with Senator Baucus and two Finance Committee members. Other Committee members that cosponsored this resolution included Senators Boschwitz, Sasser, Gorton, Boren, and Levin.

It should be noted that all of this activity took place before the Administration released its revised plan in May of 1985, proposing to retain graduation of the corporate tax rates at income levels below $75,000. However, witnesses before the Committee continued to speak out on behalf of maintaining graduated corporate tax rates—even after the Administration changed its proposal—to ensure that graduated corporate tax rates would not be bargained away.

The day after the release of the Administration's proposal on May 28, 1985, the Committee heard from James Bennett of the Montana Bank Association. While it was too early to expect any in-depth analysis of the various elements of the new proposal, Mr. Bennett clearly stated his opposition to a flat tax rate system:

> Flat tax rates do not accommodate new and developing business wealth. In essence, it protects the developed, static company and the wealthy individual . . .

Frank Carroll, president of the Small Business Service Bureau, served notice of his membership's endorsement of the retention of graduated corporate tax rates:

> The graduated corporate tax rates are also much fairer to small firms than the Treasury's proposed 33 percent flat rate. Under the Treasury proposal, businesses with earnings under $100,000 would have seen their taxes double, while high-income businesses would have enjoyed a 30 percent tax cut. Despite these positive cuts, certain aspects of the Administration's plan could be adjusted to be of greater benefit to the Nation's 7.2 million small businesses.

The call to retain graduated corporate tax rates decreased considerably after late May, obviously due to the reinstatement of graduated rates in the Administration's revised plan. However, when the Administration initially advocated the abolition of graduated corporate tax rates, the small business community universally expressed its dismay over the potential devastation which could result from this proposal. Throughout the field hearing process and other constituent contacts, no single issue of tax reform was more widely embraced than retention of graduated corporate tax rates.

OTHER TAX CONCERNS

Industrial development bonds

Industrial development bonds (IDBs), also known as industrial revenue bonds (IRBs), are bonds issued by state and local governmental entities on behalf of private businesses to finance industrial or commercial projects. As a general rule, interest income earned on the obligations of any state and local government entity is exempt from Federal income tax. Since 1969, however, interest income accruing to holders of IDBs has generally been considered taxable. However, two specific categories of IDBs have remained tax-exempt.

Provided that certain requirements are met, interest income from IDBs is tax-exempt if the IDB (1) qualifies as a "small issue"; or (2) if the proceeds are used to finance any of certain specified exempted activities, such as air or water pollution control facilities, sewage or solid waste disposal equipment, qualified mass commuting vehicles, or airports.

The "small issue" exemption [IRC 103(b)(6)], which is scheduled under TEFRA to expire after 1986, except for (due to TRA 1984) manufacturing facilities, refers to a blanket $1 million limit, expandable to a ceiling of $10 million if additional limitations are met. TEFRA (1982) also requires every IDB issue to have received public approval, be it by an elected official or body or by public referendum. The 1984 tax act, however, imposed the most severe Congressional limitation yet placed on IDBs: annual state volume caps (or ceilings) on the amount of IDBs that can be issued by each state in any given year. A state can issue IDBs in an aggregate amount not to exceed the greater of $150 per capita or $200 million.

Treasury has long maintained that tax-exempt financing of nongovernmental, private purpose facilities as presently allowable under the tax code seriously erodes the tax base, and that the volume of these bonds has worked to the detriment of bonds issued strictly to finance state and local governmental operations and facilities. Their contention is also that this tax-exemption is, in

effect, an indirect Federal subsidy, bestowing an unfair capital-raising advantage over competing businesses by lowering the cost of capital for the business beneficiary.

The Administration has proposed that the interest income on IDBs would be taxable if more than one-percent of the proceeds of a specific issue are used directly or indirectly by an entity other than the issuing governmental unit. Since many small businesses have successfully relied on the low-cost financing available through the issuance of IDBs through state and local governments, adoption of this provision would deny small businesses this source of lower-cost financing.

Possibly the strongest, most striking example of support for IDB financing is the case of Washington State, which amended its state Constitution in 1981 to authorize IDB financing, and in the same year enacted an enabling statute, appropriately entitled "the Local Economic Development Act of 1981."

The strength of the endorsement of tax-exempt IDB financing by the state of Washington was emphasized by Bob Petersen, manager of the Port of Ilwaco, at the Vancouver, Washington, hearing on August 16, 1985. In addition to expressing support for the continued availability of tax-exempt industrial development bonds as a necessary method of promoting job creation and overall economic development in the state, Mr. Petersen also implored Congress to impose no further reduction of IDBs unless it can be fully and clearly demonstrated that IDBs are contrary to the economic benefit of individual states and to the nation as a whole.

This appeal had been heard by the Committee a month and a half earlier in Boston, Massachusetts. Bob Kaplan, president of Central Mass Media, Inc., a small Massachusetts media company, credits IDB financing for enabling his company to get a strong start:

> I believe IRBs have their place—in helping small businesses to grow where they could not within normal bounds.
>
> I must stop here though and add a qualification to my endorsement of the industrial revenue program. It has not always been used thusly. Large corporations have used it. Retailers have used it. It has been abused. But I implore—do not throw out the baby with the bath water.

Paul K. Flanagan, Mayor of Huron, South Dakota, speaking out on behalf of rural America, expressed strong support for the continued availability of IDB financing:

> This of course will have an adverse effect on the rural areas of America. Industrial revenue bonds happen to be one of the real drawing points for trying to attract businesses to areas such as ours. With our agricultural economy fighting the battles that it is today, certainly the communities of South Dakota must try to find additional businesses to support and to assist us with our agricultural industry, and industrial revenue bonds are then obviously one of our primary means of enhancing businesses to consider South Dakota as a possible choice of relocation and future development.

In response to questioning from the Committee, Mayor Flanagan noted how useful IDBs are for smaller rural communities—in "attract[ing] the type capital that the metropolitan areas do."

William P. Anderson, president of Anderson Furniture, Inc., in Huron, South Dakota, favored IDB financing for local economic development and job creation in his statement. Mr. Anderson noted

that IDBs are not only used to attract out-of-state businesses, but are also helpful for expansion of existing local businesses:

> In South Dakota we use this form of financing to attract new industry to the communities, new industries, new jobs, and new tax monies. And I think we also have to look at not only are we trying to attract from other locations, but . . . [expand] local businesses.

Employee fringe benefits

An employee is generally required to include in gross income all compensation received during the year from his or her employer, regardless of whether the compensation is paid in cash, property, or other in-kind benefits. Current law, however, exempts from taxation certain employer-provided in-kind benefits, such as the cost of group-term life insurance (up to $50,000), educational assistance, accident and health insurance, group legal services, and dependent care assistance. These and certain other fringe benefits are expressly excluded from an employee's taxable income if provided under qualified employer-sponsored plans.

Non-taxation of fringe benefits raises significant fairness concerns since non-taxable benefits are not available to all taxpayers. Compensation paid in the form of in-kind benefits is not different in principle from compensation paid directly in cash. The employee who receives fringe benefits is not in a different pre-tax economic position than the employee who receives cash compensation and uses it to purchase the same benefits. Tax-free fringe benefits reduce the after-tax cost of certain goods or services. This disparity reinforces the Administration's contention that the exclusion from income of certain fringe benefits distorts the proper measurement of income.

Tax-free employee fringe benefits were originally enacted to encourage employer programs (including those established under collective bargaining) for health insurance, life insurance, death benefits, and pensions. Most of these tax-free benefits were enacted also due to the "public good" aspect of these private programs, i.e. that employee benefits affect others in society beyond those who purchase or receive them. There was also awareness of the fact that many exemptions would be relatively more beneficial to low and middle income workers than to the more affluent. Nevertheless, in the recent debate over tax simplification, both the public good and equity aspects of these exemptions have been overshadowed by emphasis on their potential as a source of revenue.

The Administration's May 1985 proposal contains provisions that would tax employer-provided benefits which are currently tax-free. The most important of these is the health insurance provision, which calls for the first $10 per month of employer-provided health insurance premiums to be included in an individual's gross income, and the inclusion of the first $25 per month of premiums for those participating in family health insurance plans. Given that the highest income tax rate under the Administration plan is 35 percent, the maximum amount of taxes that would be paid on such benefits per year would be $42 for an individual and $105 for those receiving premiums for family plans.

The proposal would mandate full taxation of death benefits provided by employers. Current law allows for tax-free treatment of the first $5,000 of employer-provided death benefits.

The Administration's plan would apply a "non-discrimination" test to many fringe benefits that originally would have been taxed under the November 1984 proposal. Thus, exclusions would be allowed for employer-maintained group term-life insurance plans, qualified group legal service plans, educational assistance programs, dependent care assistance programs, and "cafeteria" plans as long as these plans are offered to all employees of a given business rather than to a select few, such as senior officers and major shareholders.

The greatest concern expressed by most small business witnesses was the potential taxation of health insurance coverage. Ken Christianson, president of the Alf Christianson Seed Co. of Seattle, commented that "the blue collar worker" benefits the most from a medical insurance plan. Frank Carroll buttressed this position in his statement on behalf of the Small Business Service Bureau membership:

> While the President proposes only a small tax now, it sets a very bad precedent. Over the long term, this tax will actually cost the Nation money as people are forced into low quality health care . . . I think good quality health care will suffer with that kind of tax.

Stuart Shaines, president of Stuart Shaines, Inc., a New Hampshire retail clothier, also expressed concern that any tax policy change "should be carefully analyzed to ensure that any proposed changes are in line with the national goals for . . . employee welfare benefits."

Mr. Shaines noted:

> Although such amounts do not represent significant financial burdens to an employee, this could set the stage for a larger tax. And, second, the tax is regressive, placing the greater tax burden on those who are least able to pay.

Boston accountant Daniel Dennis projected that "employees would seek to recoup the costs by increased wages. I think it's going to be some poor labor relations that's going to develop because of this."

The concern about employee fringe benefits is not specifically a tax-motivated issue. Small businesses are concerned about their ability to provide adequate medical coverage to their employees, with whom they often have close personal attachments. Accordingly, they do not want to be encouraged through tax code modifications to compromise the medical protection they offer, just for the sake of a few dollars.

Cash method of accounting

Under the cash method of accounting, revenue (money from customers for goods or from clients for services) is attributed to the period in which the money is actually or constructively received; while expenses are attributed to the period in which money is disbursed to pay an expense. Under the accrual method, revenue is recorded when it is earned, i.e., when a claim of right originates; likewise, expenses are recorded when a liability is legally incurred.

A taxpayer may elect to use any method of accounting that clearly reflects income and is regularly used in keeping its books. The cash receipts and disbursements method, known as the cash method, is generally considered to clearly reflect income for federal income tax purposes under present law, except where inventories are required to be kept. For example, lawyers and farmers generally use the cash basis, while retailers and manufacturers are required to use the accrual method.

Legislating an exception for small businesses with low levels of annual receipts (less than $1-2 million) has been frequently proposed to enhance small business capital retention, as well as to relieve businesses of the complexity and expense of accurate accrual accounting.

Other than small business entities which derive their income from services (such as attorneys, accountants or other professionals) or farming, the cash method is not generally desirable. The Administration's plan proposes that taxpayers not be permitted to use the cash method of accounting unless average annual gross receipts over the preceding 3 years are less than $5 million. For businesses other than farming, use of the cash method would also be disallowed if another method of accounting had been used regularly to ascertain the income, profit or loss of the business for the purposes of statements or reports to persons with a proprietary interest, or for credit purposes. This condition would be in addition to the limitation under current law on the use of the cash method with respect to any business in which inventory accounting is required.

As the Committee conducted field hearings across the country, testimony was regularly heard regarding the need to retain the cash method of accounting. While this issue continues to be important to small business, particularly as it relates to simplicity in the tax code, witnesses who raised the issue were farmers or other smaller businesses who would not have had sufficient annual gross receipts, $5 million, to be affected by the proposed criteria of the Administration's plan, but were alarmed at the prospect of any ceiling. Concern was expressed that requiring the accrual method of accounting would place an inordinate burden on small businesses, and that the expense of satisfactorily complying with the standards of accrual accounting would be a waste of a firm's time and resources. A number of witnesses stated that such an expense would disrupt the business's ability to raise and retain capital by creating unnecessary expenses.

Several concerns about accrual accounting were addressed by Elizabeth Sperline, in Vancouver, Washington, drawing from her extensive small business operating experience. Ms. Sperline was not optimistic about any small firm's ability to adapt to accrual accounting. She noted the expense of satisfactorily complying with the generally accepted accounting principles which are part of accrual accounting. Further, she concluded that this expense would be a waste of the business's resources—in terms of both time and money—without gain in business profit. Ms. Sperline pointed out the substantial increase in small business paperwork that this provision would entail for most small businesses:

> For many of us who do have an inventory this isn't too much of a problem since we can't use the cash method anyway; but for small businesses that only keep small

amounts of inventory on hand, such as my hair dresser or the dry cleaner, the accrual system presents an unfair burden. In addition, most owners would be forced to hire the accounting done by professionals as most don't have the expertise to do it themselves. Once again, small businesses would find themselves hiring someone just to handle the paperwork. This new person would not add one penny to the income of the business nor to the Gross National product.

Robert A. Chace, referring to his experience advising small business clients, complained about the increased complexity and expense of accrual accounting. He also warned of a potential difficulty for most small businesses that use commercial sources of credit, who might be forced to switch to accrual accounting because their lender would require periodic reports of the business's operating records. Almost all commercial lenders do require some sort of periodic report which would need to based on accrual recording:

If a small businessman goes to a financial institution or goes to some outside source, the outside source or the financial institution will probably require him to present financial statements suing the accrual method of accounting. Generally-accepted accounting principles in most cases call for this type of presentation . . . And this would increase his tax cost; it would increase his accounting costs; he would have to set up new systems and new records and new ways of accounting under this more difficult and more complex method of accounting.

The small business concern about the cash method of accounting is due largely to the anticipated complexity and paperwork burden a transfer to the accrual method would subject business to—all at no net gain to the business profit margin.

Business entertainment and meal deductions

Ordinary and necessary expenses paid or incurred during a taxable year generally are deductible if the expenses bear a reasonable and proximate relation to the taxpayer's trade or business or to activities engaged in for profit. Although ordinary and necessary business expenses may include entertainment expenses, business entertainment expenses are deductible only if they satisfy certain additional requirements.

The business meals are deductible if they occur under circumstances that are "conducive to a business discussion." Expenses for other entertainment activities are deductible only if they are "directly related to" or "associated with" the taxpayer's trade or business. Entertainment activities are considered "directly related" if the taxpayer has more than a general expectation of deriving income or a specific trade or business benefit (other than goodwill) from the activity. Deductions for entertainment expenses must be supported by records showing the amount of the expense, time and place of entertainment, business purpose of the expense, and business relationship of the taxpayer to the persons entertained.

The subject of business entertainment expenses has received special legislative attention since 1962, when Congress first applied certain restrictions to the deduction of such expenses. The continuing concern in this area reflects the difficulty of identifying the business component of expenses that have obvious personal benefits and are commonly incurred in non-business contexts.

The Administration's plan proposes to eliminate deductions for entertainment activity expenses with limited exceptions. Entertainment expenses would be exempted from the general disallowance rule if they: are paid under a reimbursement arrangement (in

which case the deduction would be denied to the person receiving the reimbursement); are treated as compensation by an employer and taken into account as wages by an employee; constitute recreational expenses for employees (e.g. Christmas parties and summer outings); are expenses for goods, services, and facilities made available to the general public (e.g. samples and promotional activities); or are expenses includible in income of persons who are not employees.

A deduction would be allowed for the cost of ordinary and necessary business meals furnished in a clear business setting as defined in Treasury regulations. The proposal limits deductibility for business meals to $25 times the number of persons participating in such meals, plus 50 percent of the excess amount. The meal cost limitation would include gratuities and tax with respect to the meal. However, expenses for food and beverage furnished on the business premises of the taxpayer primarily for employees of the taxpayer would not be subject to the limitation.

The Administration argues that the limitations on meal expense are generous and therefore designed only to curb the significant level of personal consumption associated with such business expense. Treasury also cites surveys which claim that less than 15 percent of all business meals would be affected by the reform proposal in 1986.

In Seattle, John Gordon, of the Restaurant Association of the State of Washington, took exception to the Administration's position that the proposed meal deduction is generous:

> While this affects practically every hotel, restaurant and a goodly number of full service restaurants, the $25 limitation is misleading inasmuch as we are told that the usual 15 percent tip or gratuity and the 7.9 percent sales tax as applied in Seattle and slightly less in other cities and counties of this state, the limitation would be closer in fact to $19. Even if the tip and the tax were not a factor, the limit is restrictive.

Testimony from a number of restaurateurs during the course of these hearings indicates that the impact on their industry would be far greater than claimed by the Treasury Department. It should be pointed out that over 90 percent of the nation's eating and drinking establishments are small businesses; and a negative effect on 15% of the businesses in one industry is a substantial impact. The employment levels of this industry's 1.6 million people, according to the Treasury, could be adversely affected.

Frank Carroll explained the legitimate need for business meals deductions:

> While the President's provision is more favorable to small business than previous proposals, in my opinion, political expediency has led to an attack on this legitimate business expense . . .
>
> Taxing business meals will particularly hurt restaurants and sales representatives who rely on the business lunch to conduct their business . . . The majority of people who use this deduction are hard-working business people who should not be penalized for the dishonest actions of a few.

Small businesses rely principally on key employees (managers and owners) to promote and market their goods and services. Nominal profit margins in most small businesses dictate the close control of overhead expenses; therefore, large budgets for advertising and promotion are generally not available. However, entertain-

ment of key customers may be imperative to maintaining commercial relationships.

Nona Brazier emphasized the importance of legitimate entertainment expenses to small businesses:

> . . . the cost of entertaining is a valid and necessary expense to the small businessman who must make contacts in order to acquire the business that he needs to establish himself and his reputation. One and two-man operations do not have large advertising budgets available to them. They promote themselves and their businesses by continual personal contact and word of mouth. Entertainment is a valid expense for the small businessman seeking clientele even if it has been abused by big businesses just trying to keep its establishment clients happy.

Business entertainment and meal deductions are considered an important business tool by many small business persons. To eliminate another tool from the "kit-bag" of small business is to make small business less competitive than their larger counterparts.

SUMMARY

The Committee hearings on tax reform coincided with the first nine months of debate in Congress on the subject, and provided the panel with insight into the range of issues concerning small business. The presiding Senators heard testimony from a diverse group of witnesses, who provided varying perspectives on the small business point of view with regard to comprehensive tax revision.

Small business witnesses, in general, stated their support for the concept of tax reform. A vast majority acknowledged a definite need for revision of the current tax code labyrinth, but qualified this call for reform by stating that it must result in a fair and simple set of laws, which would not be subject to constant tuning. A clear call was for stability, with many witnesses claiming that small businesses cannot easily afford costly tax counsel and are often hurt most by being forced to keep up with the frequently changing set of tax laws. The numerous code changes made since 1981 were cited, with small business witnesses asking that the code stay stable long enough for businesses owners to master the new rules in order to function effectively within them, with some assurance that further adjustments not be made for several years.

The issue of fairness was consistently raised. The perception by small business that many taxpayers, both corporations and individuals, pay less than their "fair" share of the tax burden, with many not paying any tax at all, was articulated frequently. Therefore, a call was frequently heard for a stricter alternative minimum tax.

The Committee regularly heard from small business persons who expressed concern about the substantial time and cost required to prepare income tax documents due to the complexity of the current law. Simplicity was the most frequent concern addressed at these hearings; however, there was little feeling that the Administration's reform proposal would ease this burden.

As the Administration's tax reform proposal became more widely circulated and better understood by late summer, the Senators presiding over later hearings in the states of Washington and Arkansas specifically questioned witnesses regarding their preference for the Administration's plan versus current law. From the four different hearings in the above two states at which this precise question was presented to most witnesses, the consensus of opinion ranged

from an overwhelming number to just a majority in support of current law over the Administration's plan, if no changes were to be made to the Administration's plan. This question always led to more detailed considerations, the conclusions of which have been discussed above.

The small business tax concerns mentioned most frequently in the states visited by the Committee for these hearings, as well as by the National Advisory Council Members, were the retention of preferential treatment for capital gains, retention of ACRS (Accelerated Cost Recovery System) or some form of accelerated depreciation, preservation of graduated progressive rates for corporate taxable income, and retention of the investment tax credit (ITC).

Preferential treatment of capital gains was a major concern of many investors in small business who believe strongly that those assuming the risks of small business investments deserve greater reward in comparison to those receiving income from no-risk sources such as salaried employment. Businesses which benefit from this investment also joined in support of this provision. Any limitation on investor opportunities for rewards would reduce the size of the pool of investment capital available to small business.

Despite advantages from the preferential treatment of capital gains, however, capital formation has historically been an obstacle for small business, as it does not have ready access to the recognized capital markets—either for debt or equity. Therefore, the small business often finds itself having to rely heavily on retained earnings to fund its own growth. This need creates a strong small business concern about those tax code provisions most advantageous to this priority.

Accordingly, many small businesses advocated the necessity of an accelerated system for depreciating assets, whether by retaining the current ACRS, or at least some extension of depreciation lifetimes (recovery period) of assets. Concern was voiced that a new depreciation system would only serve to further complicate an already complicated system. Additionally, it is believed by many that a new system of depreciation could offer nothing that the current system could not provide, given a few minor changes. The verdict was often in favor of adjusting the current system, if need be, rather than introduction of a completely new system. Small businesses are not eager to spend the time, which translates into money, to learn and adjust to a new system of depreciation.

Vocal small business support for graduated rates was greatly muted in late May 1985 with the introduction of the later Administration proposal, which retains current graduated rates. With less imminent threat of a repeal of this provision, less need was felt by small business to address this issue. Nonetheless, witnesses continued to express concern that graduated rates be maintained in any revised tax system. It is appropriate here to recall that the 20 percent of all small business entities organized as corporations account for 65 percent of all small business net income and are the major small business taxpayers. As a result of this fact, the Committee heard relatively few expressions of concern regarding individual rates.

Small business also strongly argued to preserve at least a limited version of the investment tax credit (ITC). Many businesses advised

that the investment tax credit is useful for growth by enabling businesses to fund their own growth. Witnesses also clearly indicated that small business does not have the luxury of indulging in tax-motivated purchases. There is always a pressing need for capital for current operations. Two intriguing suggestions were received over the course of these hearings which offered modifications of the ITC to help fund other possible benefits of reform. It was suggested that ITC be limited to purchases of domestically produced property in order to alleviate the trade imbalance; also, that the amount of the ITC allowable in any one year be limited, as is currently the rule for used property. This latter suggestion serves to restrict the primary benefit of this investment incentive to America's innovative giant—small business.

A number of other issues, also essential to small businesses, arose during these hearings. First, preserving IDBs was stressed as they have well served as an alternative method of low cost financing for small businesses. Second, the taxation of fringe benefits is of concern to many small businesses, where strong personal relationships with employees might force either increased employee contributions or reduced coverage for each worker. Third, small businesses have strongly advocated retaining the cash method of accounting due to the complexity and expense of the accrual method. Finally, despite perceived abuses with the deduction for business meal and entertainment expenses, it was often stated that these expenses serve as an important tool for small business marketing, as well as being essential to many eating and entertaining facilities, most of which are small businesses.

As Congress and the Administration move toward reform of the tax system, it is vital to carefully examine the impact that tax reform will have on the nation's small firms. The small business sector represents 38 percent of the gross national product and employs 48 percent of the private work force. Changes in the tax law will have significant effects on small firms and their ability to compete. The framework established by the Administration can be an important step toward tax fairness for small business.

In closing, the impact of tax reform on small business is an issue of prime importance to our economy. It is hoped that this report will be reviewed by the tax-writing Committees of the Senate and House as well as the Members of Congress participating in the debate.

A summary of all small business tax concerns addressed by the witnesses heard by the Committee since January 9, 1985, follows:

SMALL BUSINESS FAVORED TAX PROVISIONS

Rank		Frequency mentioned (for/against)
	Policy concerns	
1	Simplicity	80
2	Fairness (neutrality)	56
3	Stability	50
4	Deficit reduction/containment	33
5	Contemporaneous recordkeeping	0/18
6	Tax code provided incentives	8/11

SMALL BUSINESS FAVORED TAX PROVISIONS—Continued

Rank		Frequency mentioned (for/against)
	Key small business tax concerns	
1	Capital gains preference	75/4
2	ACRS (or similar accelerated depreciation system)	74/3
3	Investment tax credit	71/2
4	Graduated corporated tax rates	69
5	Industrial development bonds	37/1
6	Tax-favored employee benefits	32/6
7	Cash method of accounting	28
8	Business meal deductions	21/3
9[1]	Income averaging	16
	Direct expensing	16
10	Bad debt reserve	14/1
	Other tax issues mentioned	
	Double taxation of dividends	
	Charitable deduction	
	R&D tax credit	
	$2,000 personal exemption	
	Index inventory accounting	
	Payroll taxes	
	Stricter alternative minimum tax	
	Capitalization of timber expenses	
	Employee stock ownership plans [ESOPs]	
	Current estate and gift tax	
	Orphan drug deduction	
	Compliance rules for professional preparers	

[1] Tie

This table reflects the concerns of all witnesses heard by the Committee. The scores above represent how frequently issues were addressed by witnesses. Whenever a witness chose to elaborate on an issue (more than a paragraph or 5 lines) the scoring was adjusted.

The following is a list of witnesses who testified at these field hearings.

NASHVILLE AND MEMPHIS, TENNESSEE

January 9, 1985

Bateman, Mike, certified public accountant, Nashville, TN.

Bolton, Dewayne P., chairman, ECOM System, Inc., Memphis, TN.

Freeman, William, H., president, Freeman Webb Co., realtors, Nashville, TN.

Jones, Jane, Jane Jones Enterprise, Nashville, TN.

Mallory, B. Lee, executive vice president, Memphis Compress and Storage Co., Memphis, TN.

Nourse, Bill, Brookmead Hardware, and president, American Independent Business Network, Nashville, TN.

Oldham, R. Wayne, chairman, Southern Hospitality Corp., Nashville, TN.

Ratton, Robert W., Jr., attorney, Wildman, Harrold, Allen, Dixon & McDonnell, Memphis, TN.

Rosser, Dr. Leonard, director, Tennessee Small Business Development Center, Memphis State University, accompanied by Edgar R. Cole, Small Business Development Center, Memphis, TN; and by Dr. Billy G. Stallings, vice president and treasurer, ECS Industries, Gallaway, TN.

Schoenblum, Jeffrey A., professor of law, Vanderbilt University Law School, Nashville, TN.

Settles, Thomas E., attorney, Tune, Entrekin & White, Nashville, TN.

Smythe, Katherine Hinds, president, Memphis Memorial Park, Inc., Memphis, TN.

Toma, John, Aldrich Investment Corp., Memphis, TN.
Vergos, John, Rendezvous Restaurant, Memphis, TN.
Walsh, John, president, Porcelain Industries, Nashville, TN.

SIOUX FALLS AND HURON, SOUTH DAKOTA

February 13, 1985

Anderson, William P., president, Anderson Furniture, Inc., Huron, SD.
Batcheller, Thomas J., president, Zip Feed Mills, Inc., Sioux Falls, SD.
Beckman, Lloyd, farm implement dealer, Brookings, SD.
Bisch, Harold J., president, Huron Area Chamber of Commerce, Huron, SD.
Bjorklund, Lyle G., president, Bjorklund Goods, Inc., Volga, SD.
Danz, John F., president, Lakeside Dairy Co., Sioux Falls, SD.
Ekstrum, Charles W., president, First National Bank, Philip, SD.
Flanagan, Hon. Paul K., mayor, Huron, SD.
Ingle, Bob, farmer, Huron, SD.
Johnson, Eldon R., owner, Lilac Crest Charolais Farm, Hartford, SD.
Statz, Joseph, State Snyder Drugs, Parkston, SD.
Mehlhaf, Milton T., president, The First National Bank, Freeman, SD.
Moore, James E., Esq., partner, Moore, Rasmussen, Sabers & Kading, attorneys, Sioux Falls, SD.
Nyberg, Roy D., president, Nyberg's Ace Hardware, Inc.; member, board of governors, National Retail Hardware Assoc, Sioux Falls, SD.
Ode, Burton P., farmer, Brandon, SD.
Odson, Bruce L., president, Farmers & Merchants Bank, Huron, SD.
Ring, Raymond, J., Jr., associate professor of economics, School of Business, Universtity of South Dakota, Vermillion, SD.
Matthews, Joe, family farm owner/operator, Lily, SD.

RAPID CITY, SOUTH DAKOTA

February 14, 1985

Adelstein, Stan, president, Hills Materials, Co., Northwestern Engineering and other business interests, Rapid City, SD.
Brown, Lawrence, Rancher, Buffalo, SD.
Corner, Sherwood (Woody), president, Corner Construction Co., Howard Johnson Motor Lodges and president KEVN-TV.
Crew, Keith L., rancher and businessman and owner of the Circle 10 Campground near Interior.
Herdina, Leo, general manager, Black Hills Milk Producers, Rapid City, SD.
Lane, Thomas E., president, Kluthe & Lane Insurance—First American Systems, Inc.
Lein, Dr. Charles D., president, Black Hills Gold Jewelry Manufacturing Co., former president of the University of South Dakota, Rapid City, SD.
Riordan-Steuerwald, Kay, owner of the Mountain Company and member of the Senate Commerce Committee Tourism Advisory Board.
Rypkema, Milo, owner of Dodge Town, Inc., and of Mount Rushmore Angus Ranch.
Wetz, Kenneth, Hon., Mayor of Newell, SD.

CHICAGO, ILLINOIS

March 4, 1985

Atherton, Robert C., chairman, Raco Industries Corp., on behalf of the Machinery Dealers National Association, Des Plaines, IL.
Jones, E. Patric, president, the Urban Fund of Illinois, Inc.; managing officer, Combined Opportunities, Inc.; and past chairman, the American Association of MESBICs, Chicago, IL.
Kolb, Gerald M., treasurer, United American Food Processors, accompanied by Jacob Brandzel, Laventhol & Horwath, Chicago, IL.
Ryan, Hon. George H., Lieutenant Governor, State of Illinois, Springfield, IL.
Smith, Sheila, vice president and chairman of the board, Granite Technologies, Inc., and vice president and treasurer, Glow Lite Corporation, Chicago, IL.
Straus, Cynthia L., president, Chem-Plate Industries, and board member of Chicago Metal Finishers Institute, Chicago, IL.

Stowe, William E., manager, tax department, Illinois State Chamber of Commerce, Chicago, IL.

Tobin, Michael E., chairman of the board, American National Bank of Chicago, Chicago, IL.

MISSOULA, MONTANA

May 28, 1985

Allen, George, executive vice president, Montana Retail Association, Missoula, MT.

Bragg, Robert B., Bragg, Ingold and Company, certified public accountants, Missoula, MT.

Burke, J. Martin, professor, University of Montana School of Law, Missoula, MT.

Lake, Robert G., owner-operator, Lake Milling, Inc., Hamilton, MT.

Sather, Timothy J., Dobbins, DeGuire & Tucker, P.C., certified public accountants, Missoula, MT.

Stedje, Norman, Missoula, MT.

Vorhauer, Dr. Bruce, chairman of the board, VLI Corporation, Seeley Lake, MT.

BILLINGS, MONTANA

May 29, 1985

Asay, Jack, representing the Montana Cattle Feeders Association, Billings, MT.

Bennett, James D., president, First Citizens Bank, Billings, MT.

Cartmill, Joe, Cartmill's Inc., Billings, MT.

Crippen, Bruce, State Senator, Yellowstone County, Billings, MT.

Davis, Edward L., certified public accountant, Galusha, Higgins and Galusha, Billings, MT.

Dostal, John, attorney, Anderson, Brown Gerbase, Cebull and Jones, Billings, MT.

Fredericks, Conrad B., attorney, Big Timber, MT, on behalf of the National Federation of Independent Business.

Gillin, Bill, chairman, Northern Plains Resource Council Family Farm Task Force, Billings, MT.

Koessler, James H., president, Rocky Mountain Capital, Ltd., Billings, MT.

Winchell, James P., certified public accountant, Janke, Winchell, Ehrlick & Co., Billings, MT.

Yager, Bill, farmer, Edgar, MT.

BOSTON, MASSACHUSETTS

July 3, 1985

Berlandi, Dr. Francis J., Touchstone Environmental Consulting, Inc., Winchester, MA.

Buckley, John S., partner, Ernst & Whinney, Boston, MA.

Carroll, Frank, president, Small Business Service Bureau, Worcester, MA.

Dennis, Daniel, CPA, Daniel Dennis & Co., Boston, MA.

Fryer, Malcolm J., partner, Dobroth & Fryer, Lowell, MA.

Griffin, Alice B., chief executive officer, Griffin Pension Services, South Hamilton, MA.

Haddad, Robert L., Price Waterhouse & Co., Boston, MA.

Kaplan, Daniel, president, Central Mass Media, Inc., Worcester, MA.

McDaniel, Prof. Paul, Boston College School of Law, Newton, MA.

Neises, Jack, partner, Charles River Partnerships, Boston, MA.

Shaines, Stuart, Stuart Shaines, Inc., Portsmouth, MA.

Spinelli, Steve, Jiffy Lube, Inc., Springfield, MA.

Stearns, Thornton, president, Vacuum Barrier Corp., Woburn, MA.

Walkerman, Betsy, vice president, for finance and administration, Aspen Technology, Cambridge, MA.

VANCOUVER, WASHINGTON

August 16, 1985

Battles, Millard T., III, Tourist Regional Information Program of Southwest Washington, Longview, WA.

Bledsoe, Stewart, executive director, Washington Forest Protection Association, Olympia, WA.
Byrd, William, F., III, president, Pacific Die Casting Corp., Vancouver, WA.
Chace, Robert A., certified public accountant, Longview, WA.
Erickson, Vinton, Vancouver, WA.
Hanson, Nels, president, Washington Farm Forestry Association, Olympia, WA.
Johnson, Darlene G., president, Woodland Truck Line, Vancouver, WA.
Petersen, Bob, port manager, Ilwaco, WA.
Sperline, Elizabeth, president, ESSA International, Inc., Rochester, WA.
Young, Thomas C., Northwest National Bank, Vancouver, WA.

SEATTLE, WASHINGTON

August 19, 1985

Alkire, Durwood L., professor of accounting, School of Business, University of Washington, Seattle, WA.
Battles, Millard III, Tourist Regional Information Program of Southwest Washington, Longview, WA.
Beeksma, B.R., president, Interwest Savings Banks, Oak Harbor, WA.
Brazier, Nona, president, Northwest Recovery Systems, Inc., Federal Way, WA.
Byrne, Jim, director of governmental affairs, Washington Credit Union League, Redmond, WA.
Christianson, Ken, president, Alf. Christianson Seed Co., Mount Vernon, WA.
Crissey, Sten, president, Crissey Flowers & Gifts, Seattle, WA.
DuJardin, Dave, DuJardin Development, Everett, WA.
Duzan, Stephen A., president, Immunex Corp., Seattle, WA.
Gordon, John F., executive vice president, Restaurant Association of the State of Washington, Seattle, WA.
Mariger, Randall, Department of Economics, University of Washington, Seattle, WA.
Schmidt, David, chairman of the board, Coulee Dam Credit Union, Coulee City, WA, on behalf of the Washington Credit Union League.
Soule, Ray L., president, Great Northwest S&L Association, Bremerton, WA.
St. John, Bill, Bio Techniques Laboratories, Inc., Redmond, WA.
Wise, Gordon, M., Mamco Manufacturing, Seattle, WA.

FORT SMITH, ARKANSAS

August 27, 1985

Byars, Joe, D., BHC Life & Group Specialists, Inc., Fort Smith, AR.
Cary, Victor, The Wortz Company, Fort Smith, AR.
Lambert, Beverly, III, Merchants National Bank of Fort Smith, AR.
Lewis, Maurice, Arkansas Hospitality Association, Little Rock, AR.
Ludington, Samuel R., certified public accountant, Fort Smith, AR.
Norton, Gaines, Frost & Company, certified public accountants, Little Rock, AR.
Price, John Porter, J.P. Price Lumber Company, Monticello, AR.
Purtle, Ned Ray, Ned Purtle & Son, Hope, AR.
Sanders, Sandy, Whirlpool Corporation, Fort Smith, AR.

WEST MEMPHIS, ARKANSAS

August 28, 1985

Brawley, Don W., special agent, Prudential Insurance Co., West Memphis, AR.
Brown, Sharon, owner, Brown's Grocery, West Memphis, AR.
Butler, Don, president-elect, Arkansas Home Builders Association, Little Rock, AR.
Chitman, Hon. Leo, Mayor, West Memphis, AR.
Dodge, Harry F., certified public accountant, Dodge, Thomas & Goss, West Memphis, AR.
Dooley, Joe, John Deere Equipment dealer, Wynne, AR, representing the Mid-South Farm Equipment Association.
Ford, Michael, E., President, West Memphis Board of Realtors, West Memphis, AR.
Hatfield, Dick, tax attorney, Hatfield, Hodges, Marshall & Jordan, Searcy, AR.

Hughes, Paul C., President and Chief Executive Officer, Farmers Soybean Corp., Blytheville, AR.

McKnight, Donald, farmer, Parkin, AR.

Stephens, John, retired farmer, Marion, AR.

Additional statements for the record were received from:

Independent Business Association of Illinois, Niles, IL.

John J. Motley III, National director of Federal legislation, Federation of Independent Business, Washington, DC.

Nicholas, E. Calio, vice president, Government relations, National Association of Wholesaler-Distributors, Washington, DC.

James R. Williams, president, National Retail Merchants Association, Washington, DC.

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